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CENTRAL INTELLIGENCE AGENCY

THE CURRENT SITUATION IN EGYPT

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1. THE STRATEGIC IMPORTANCE OF EGYPT.

Egypt should normally be considered along with the other Arab states, for much of its significance arises from the strategic importance of these states and Egypt's influential position among them. Geographically, however, it is important to the defense of the Eastern Mediterranean. It has the advantage, defensively, of being separated from potentially hostile areas of Europe by sea and land barriers. Offensively, Egypt is a potential base for operations to counteract threats from the North against the Suez Canal area or the oil-rich lands of the Middle East. Having been a supply base in two World Wars, Egypt also has housing, air, and transportation facilities which would be a valuable factor for any modern military force entering the area.

2. PROBABLE FUTURE DEVELOPMENTS.

Nationalism and the pan-Islam movement are expected to increase in Egypt, as in the other Arab states, and to lessen Egypt's political dependence upon the US and UK. Should the UN, with Western support, render decisions on the Palestine problem and the Anglo-Egyptian dispute which the Arabs consider prejudicial to their aspirations (or, indeed, should the UN take an anti-Arab position on any question affecting the Arab world), Egyptian relations with the Western Powers will be further strained.

Two possible conditions in the long-term future might facilitate Soviet penetration in Egypt. If some economic and social reforms are not made and if the low standard of living is allowed to continue, a fertile field will be provided for the spread of Communism. Also, if the foreign policies of the US and UK arouse popular resentment, Egypt may attempt (as it has done in the past) to gain some counteracting support from the USSR in an endeavor to improve the Egyptian bargaining position with the US and UK.

3. POLITICAL SITUATION.

Despite frequent cabinet changes, Egypt may be considered politically stable, with government control centered in the hands of the wealthy upper class, while the large majority of the population is politically inarticulate.

The present government is a minority coalition kept in power by the influence of the King and his palace clique. The largest party, the Wafd, is prevented from forming a government largely because of the personal animosity of the King to the Wafd party leader. Even if the present government were replaced by a Wafdist cabinet, there would be no fundamental change in Egyptian domestic and foreign policies, except that the Wafdists might make a more determined effort to settle Anglo-Egyptian differences. A new element, however, may be introduced by the post-war development of the Moslem Brotherhood Party, with its emphasis upon Islam and its extreme antipa-

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thy to foreign interference in the Arab world. Communism offers no immediate threat to Egyptian stability, but potential support for the spread of Communist doctrines lies in the great mass of Egyptians whose standard of living is at a bare subsistence level.

4. ECONOMIC SITUATION.

The Egyptian economy, though not in the serious plight of most Western European countries, is currently suffering from inflation and high cost of living, unemployment of large numbers of wartime workers, and a difficult exchange problem. The UK is unable to provide either adequate amounts of needed goods or to convert wartime accumulated holdings of sterling into dollars. Cotton, the principal Egyptian export, has a small market in the dollar area and therefore yields insufficient dollar exchange for adequate imports from the US. Failure to solve the foreign exchange problem will result in a postponement of industrial development and public works projects. The continued shortage of many consumer goods will hold down the already low standard of living.

In agricultural production Egypt is nearly self-sufficient. Corn is the staple crop, and a surplus of rice compensates for a wheat deficit. Most of the population maintains a very low standard of living by farming.

Light industry is concentrated largely in the Delta area and, financed by local capital to an increasing extent, processes local products such as foodstuffs and cotton. Known mineral resources, except in certain areas, are not extensive and are but poorly developed. Half of Egypt's petroleum requirements are met from local production, while natron, manganese, and wolfram deposits are also being worked. Future development of the deposits of Egyptian iron ore and Sudanese copper may make possible the establishment of additional industries. Cotton products normally account for about 80 per cent of the exports from the area. Textiles, petroleum products, machinery and other manufactures are the main industrial imports.

The major sources of government revenue are the customs, income tax, and railroads, while appropriations for the major ministries of Commerce, Education, Public Works, and National Defense are the main expenditures. The budgets of these Ministries are supplemented by a cost-of-living bonus which represents by itself a large individual item in the budget. The Five Year Plan to develop Egypt industrially and socially will be financed largely from the reserve fund rather than from current receipts.

The transportation system satisfies normal requirements. In the Nile Valley roads and railroads supplement river transportation. Although Cairo is at the center of converging air routes, which connect US and Europe with the Far East, the maintenance of air facilities and equipment in this area is generally below US standards.

The Company Law, recently passed by the Egyptian Parliament, is designed to increase the participation of Egyptians in business. This is one of the factors which may tend to discourage further US investment in the country.

5. FOREIGN AFFAIRS.

The rise of Egyptian nationalism following World War II is partly responsible for the country's growing independence of foreign political ties, particularly those with

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Great Britain and France, greater regulation of foreign business interests, and an increased xenophobia. Besides seeking greater independence for itself, Egypt has also, as a leader of the Arab League, extended its influence throughout the Arab world generally.

The outcome of two issues currently before the UN will materially affect the immediate future of Egypt's relationship to the Western Powers. The first is the Egyptian demand that Great Britain withdraw its troops from the Nile Valley and terminate its control over the Sudan. The second is the Palestine issue. In the Anglo-Egyptian dispute, the Egyptians feel bitter toward the US for not using its influence fully to support Egypt's case in the SC. Also, Egypt holds the Western Powers responsible for the Palestine trouble and, together with the other Arab countries, is highly critical of the pro-Zionist stand which the US has taken.

Soviet relations with Egypt are not close, but Egyptians, although shunning any strong alignment with the USSR, have tended in recent years to look more toward the Soviet Union in the hope of gaining support for the Arabs in counteracting unpopular US and UK policies in the Middle East.

6. MILITARY SITUATION.

The Egyptian armed forces are poorly trained, inadequately equipped, and inefficiently led. They could not defend the Suez Canal area against a major adversary without immediate foreign aid in the form of air, sea, and ground units. Because of current financial problems, Egypt would be unable to improve its armed forces without foreign financial and technical assistance. Egypt, however, in conjunction with the other Arab countries, could furnish some support to the Palestine Arabs should hostilities break out between them and the Jews.

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